Bank of Ireland Group plc (the "Group")

Interim Management Statement – Q3 2020 update

28 October 2020

Comment: Francesca McDonagh, Bank of Ireland Group CEO:

"As we navigate COVID-19 we continue to support our customers at each stage of the pandemic, playing our part in the reboot of the economy, and staying focused on our strategic objectives.

We are delivering good progress on transformation, customer delivery, and operating cost. Examples include the roll-out of our new Mobile App to iOS customers which follows the successful launch to Android users in May. Our cloud-based personal current account journey is now the largest channel for customers opening a current account, and we launched a fully digitised mortgage application process for first time buyers in July. We also completed a bank-wide voluntary redundancy scheme, which will deliver a step-change reduction to the bank's cost base.

The third quarter saw generally better trading conditions compared to quarter two. Business volumes and activity in Ireland improved including a c.30% increase in our Irish mortgage drawdowns compared to the second quarter of 2020 and we also experienced improved business activity in our UK business, including Bespoke mortgages where drawdowns doubled quarter on quarter. While there has been improvement in the third quarter, recently announced COVID-19 restrictions by the Irish and UK governments combined with Brexit present continued uncertainty. Against this backdrop, our capital position remains strong."

Key highlights:
- Strong capital position; fully loaded CET1 capital ratio 13.5%, regulatory CET1 capital ratio 14.8%
- Higher activity levels in Q3 compared to prior quarter; new lending up 59% and business income (including share of associates/JVs) up 25%
- Net interest income (NII) 2% lower in the 9 months to September vs prior year; NIM of 2.00%
- New lending of €9 billion to September; 25% lower compared to prior year
- Business income (including share of associates/JVs); 19% lower in the 9 months to September vs prior year
- Continued strong cost discipline; net reduction of 4% in the 9 months to September vs prior year
- Restructuring charge of €169 million taken in September reflecting the results of the Group's voluntary redundancy scheme and supporting a step-change reduction in costs
- No material increase in actual Stage 3 loan losses in the 3 months to September 2020

Income
NII is 2% lower in the 9 months to September 2020, when compared to the same period in 2019. This reflects lower new lending volumes and the on-going impact of lower interest rates. Lower funding costs, including the impact of applying negative interest rates to certain deposits, has supported interest income. In addition, higher mortgage and revolving credit facilities (RCFs) activity has been positive. The Group continues to maintain strong commercial pricing discipline with loan asset spreads remaining stable.

While the third quarter has seen an improvement, business income, including share of associates and JVs, is 19% lower in the 9 months to September 2020, when compared to the same period in 2019.

Costs and voluntary redundancy
The Group continues to maintain tight control over the cost base while investing in transformation and absorbing cost inflation. Operating expenses (excluding levies and regulatory charges) are 4% lower in the

first 9 months of 2020 compared to the same period in 2019. The net reduction of 4% includes on-going COVID-19 related costs incurred during 2020.

The voluntary redundancy scheme, which concluded in the third quarter, will result in c.1450 FTE exits commencing in 2020 and continuing over the course of 2021. When completed the financial impact is a c.€114 million reduction in annual staff costs, equivalent to 14% of September 2020 annualised staff costs. The restructuring charge of €169 million is captured within the Group's broader €1.4 billion investment programme to 2021 and will further help to achieve our target cost base of less than €1.65 billion by 2021, and lower again beyond 2021.

Balance Sheet

Customer loan volumes were €76.3 billion at the end of September 2020, a decrease of €3.2 billion since December 2019 (€0.8 billion reduction on a constant currency basis). New lending of €9 billion, excluding RCFs of €0.9 billion, declined 25% compared to prior year while loan redemptions were €10.1 billion.

The Group's market share of new mortgage lending in Ireland averaged c.25% in the first 9 months of 2020 capturing increased customer activity in the third quarter.

The Group's liquid assets of €30.8 billion have increased by €3.6 billion since December 2019 reflecting lower loan volumes and increased customer deposits of €3.2 billion since the start of the year.

Customer deposits were €87.2 billion (€88.1 billion on a constant currency basis) and wholesale funding was €9.7 billion at the end of September 2020. The Group successfully issued €300 million of AT1 securities in August and has now issued AT1 securities of €975 million in 2020, filling the Group's Pillar 1 and P2R requirements for AT1.

Asset Quality

The Group has not experienced a material increase in loan losses since June 2020, in line with expectations. Macroeconomic scenarios impacting credit impairment will be refreshed to reflect updated market forecasts and captured as part of the Group's year-end credit impairment process.

The Group continues to support our personal and business customers in Ireland and the UK through Payment Breaks. The number of customers availing of a Payment Break continues to reduce as Payment Breaks expire. The Group approved c.106,000 initial 3-month Payment Breaks in Ireland and the UK, with c.27,000 availing of a further 3-month extension. As at 16 October 2020 there are a total of c.20k outstanding Payment Breaks. The table below provides details by geography and portfolio.

Payment Breaks – total balances outstanding as at 16 October 2020				
Ireland	**Mortgages**	**Consumer**	**SME**	**Total**
No. of accounts	6.4k	1.9k	2.8k	11.1k
Exposure	€1.1bn	€28m	€0.8bn	€1.9bn
% of accounts	4%	1%	2%	2%
% of portfolio	5%	2%	9%	5%
UK	**Mortgages**	**Consumer**	**SME**	**Total**
No. of accounts	4.3k	3.9k	0.7k	8.9k
Exposure	€0.7bn	€44m	€19m	€0.8bn
% of accounts	3%	1%	1%	2%
% of portfolio	3%	1%	1%	3%

For those customers that have come off Payment Breaks, the significant majority have resumed principal and interest repayments. The number of customers requiring additional support is in-line with our expectations. Non-performing exposures (NPEs) have remained broadly stable since the end of June 2020, €4.5 billion at the end of September 2020, equivalent to an NPE ratio of 5.8%. The Group has a strong track record of credit risk management and working with customers to implement sustainable solutions.

Capital Position

The Group's fully loaded CET1 ratio decreased by a net 10bps from 13.6% at June 2020 to 13.5% at the end of September 2020. The Group's organic capital generation was more than offset by investments in our transformation programme, including c.30bps from voluntary redundancy restructuring costs, and other movements.

The Group's regulatory CET1 ratio was 14.8% compared to current regulatory requirements of 9.27%. The Group's regulatory Total Capital ratio was 19.2% at the end of September 2020.

2020 Outlook

Third quarter trading was positive relative to expectations. Taking into account this positive trading, the potential impact of increased restrictions to control the pandemic and on-going uncertainties in relation to Brexit, our overall expectation for 2020 performance is unchanged. The Group continues to maintain strong capital with large capital buffers above regulatory minimum requirements.

Ends

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